

**STATE OF UTAH INSURANCE DEPARTMENT**  
**FINANCIAL EXAMINATION REPORT**  
**OF**  
**LANDCAR LIFE INSURANCE COMPANY**  
**OF**  
**SANDY, UTAH**  
**AS OF**  
**DECEMBER 31, 2002**



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December 18, 2003

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable John Morrison, Commissioner  
Secretary, Western Zone, NAIC  
Montana Department of Insurance  
840 Helena Avenue  
Helena, Montana 59601

Honorable Merwin U. Stewart, Commissioner  
Utah Insurance Department  
State Office Building, Room 3110  
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2002, of the financial condition and business affairs of

**LANDCAR LIFE INSURANCE COMPANY**  
of  
Sandy, Utah

a stock life insurance company, hereinafter referred to as the Company.

**SCOPE OF EXAMINATION**

Period Covered by Examination

The last examination was made as of December 31, 1999. The current examination covers the period from January 1, 2000, through December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date noted during the course of this examination.

### Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted during the examination period and a determination of its financial condition as of December 31, 2002. Assets were verified and valued, and liabilities were determined or estimated.

The Company retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. These work papers were utilized by the examination on a limited basis in the verification of certain balance sheet accounts and as a supplement to the procedures performed during the examination.

A letter of representation certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination work papers.

### Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

Important points and recommendations noted in the prior examination report have been addressed by the Company.

## **HISTORY**

### General

The Company was incorporated on September 10, 1980, under the laws of the state of Arizona, and was licensed as a credit life reinsurer in Arizona, and commenced business in that state on January 9, 1981. Effective December 31, 1985, the Company was re-domesticated in the state of Utah as a direct insurer, and is currently licensed to transact life, annuity and disability insurance.

The articles of incorporation were modified on April 18, 1997. Article V was amended to change the par value of the Company's capital stock from \$6 per share to \$10 per share, with the additional par value being provided by the re-classification of a proportionate share of unassigned surplus of the Company. In conjunction with this

) amendment, Article VI was amended to increase the value of the Company's stated capital from \$600,000 to \$1,000,000. These amendments were approved by the Department on June 30, 1997.

During the period covered by this examination, there were no amendments made to the bylaws or articles of incorporation.

#### Capital Stock

As of December 31, 2002, the Company was authorized to issue 1,000,000, shares of common capital stock with a par value of \$10 per share. There were 100,000 shares issued and outstanding with an aggregate statement value of \$1,000,000. The ultimate controlling persons are Lawrence H. Miller and Karen G. Miller who own 79,880 shares or 79.88% of the outstanding stock. The remaining 20,120 outstanding shares are owned by the five children of Lawrence H. and Karen G. Miller, each of whom owns 4,024 shares or 4.024% of the aggregate total.

#### Dividends to Stockholders

The Company neither declared nor paid any dividends during the examination period.

#### Management

) Management of the Company is vested in its board of directors. The following individuals were serving as directors of the Company as of December 31, 2002:

<u>Name and Location</u>	<u>Principal Occupation</u>
Lawrence H. Miller Sandy, Utah	Secretary-Treasurer Larry H. Miller Corporation
Karen G. Miller Sandy, Utah	President Larry H. Miller Corporation
Bryan J. Miller Sandy, Utah	Larry H. Miller Group
Gregory S. Miller Sandy, Utah	Operations Manager Larry H. Miller Group
Rodger L. Miller Sandy, Utah	Information Systems Manager Landcar Management Company
Steven F. Miller Sandy, Utah	Larry H. Miller Group
Karen R. Miller Sandy, Utah	Larry H. Miller Group

Officers of the Company serving at December 31, 2002, were as follows:

<u>Name</u>	<u>Title</u>
Karen G. Miller	President
Lawrence H. Miller	Secretary-Treasurer
Bryan J. Miller	Vice President
Gregory S. Miller	Vice President
Roger L. Miller	Vice President
Stephen F. Miller	Vice President
Karen R. Miller	Vice President

According to the board of director minutes, there were no committees during the examination period.

#### Conflict of Interest Procedure

During the period covered by the examination, conflict of interest statements were completed annually by directors and officers of the Company. No exceptions were noted.

#### Corporate Records

Corporate records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of directors. The minutes contained detailed information about the Company including current events, officer and director elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported the Company's transactions and events.

The prior examination report as of December 31, 1999, was distributed to the board in July 2001.

#### Acquisitions, Mergers, Disposals, Dissolutions and Purchase or Sales through Reinsurance

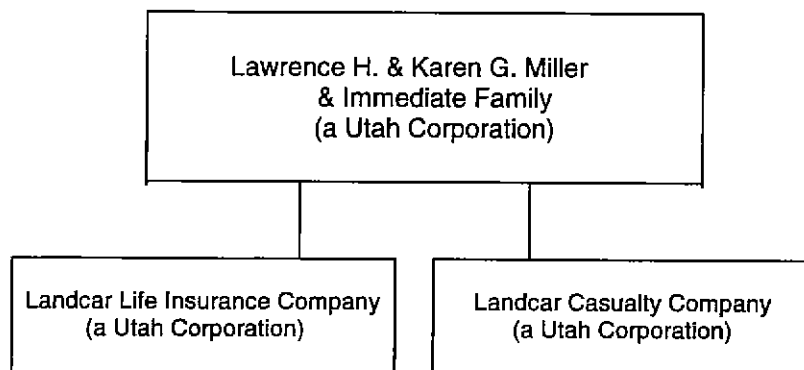
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance noted that involved the Company during the examination period.

### Surplus Debentures

During the period covered by the examination, the Company was not party to any surplus debentures.

### **AFFILIATED COMPANIES**

The Company was a member of the insurance holding company system shown in the following organization chart as of December 31, 2002:



Insurance holding company registrations statements as of December 31, 2002, were filed with the Department on April 23, 2003, pursuant to U.C.A. §31A-16-105.

In addition to the two above named insurance companies, the Miller Family has ownership or partial ownership of approximately 49 other business entities, none of which are insurers.

In June 2001, the Company executed a cost sharing agreement with its affiliates, Landcar Casualty Company and Landcar Agency, Inc. The agreement states that the Company will provide employees and facilities to the affiliates and will settle costs on a monthly basis.

### **FIDELITY BOND AND OTHER INSURANCE**

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for a company of the Company's size and premium volume is not less than \$200,000. As of December 31, 2002, the Company had fidelity bond coverage of \$150,000.

The Company also had additional insurance protection against loss from property and liability risks.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company's full time employees were eligible for a 401(k) retirement plan. Employees could contribute up to a maximum of 6% of their annual compensation. The plan provided for a matching contribution by the Company of 50% of the first 3% of base compensation that the employee contributes to the plan.

No provision was necessary in the financial statement of the Company for this plan. It was administered through the Larry H. Miller Group, for all of its subsidiaries and affiliates, in which benefits were paid as the obligation was incurred.

The Company's insurance programs provided to its qualified employees and their dependents consisted of group health, dental, disability, and life insurance benefits.

## STATUTORY DEPOSITS

Pursuant to U.C.A. §31A-4-105, the Company was required to maintain a deposit in an amount equal to its minimum capital requirement. The Company's minimum capital requirement was \$400,000 at December 31, 2002. Deposits maintained by or through regulatory agencies in the policyholder's behalf, as of December 31, 2002, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	Federal Home Loan Mortgages and FNMA Notes	\$ 1,550,000	\$1,558,394

Special deposits held through various state insurance departments and not held for the benefit of all policyholders as of December 31, 2002, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Arizona	Certificate of Deposit	\$ 100,000	\$ 100,000
New Mexico	FNMA Notes 7.125%	102,000	102,000
Texas	FHLB Securities 5.55%	200,000	202,438
Utah	FNMA REMIC 6.5% *	<u>1,000,000</u>	<u>1,002,550</u>
Totals		<u>\$3,250,487</u>	<u>\$3,455,750</u>

\* This security consisted of an escrow deposit related to reinsurance assumed (see Reinsurance).



## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Policy Forms and Underwriting**

As of December 31, 2002, the major portion of the Company's premium revenue is generated through automobile sales from affiliated auto dealerships in the form of single premium credit life and disability insurance coverage. The Company's maximum limit is \$100,000 on any single risk.

The Company utilizes one basic policy form in writing its coverage for decreasing term life, level term life, net balance term life, and disability.

As of the year 2000, the Company no longer offers optional group term life insurance. The policy forms issued during the examination period were consistent with Department approved forms.

### **Territory and Plan of Operation**

The Company was licensed and authorized to transact life, annuity and disability insurance in the following states as of December 31, 2002:

Arizona	Idaho	Oregon	Utah
Colorado	New Mexico	Texas	

The Company's major marketing emphasis is concentrated on single premium credit life and credit disability policies, the sale of which is generated through automobile sales from a number of affiliated automobile dealerships.

Business written by dealerships in Colorado and Oklahoma is underwritten by American Heritage Life Insurance Company of Jacksonville, Florida, and assumed 100% by the Company.

### **Advertising and Sales Material**

As of the period covered by the examination, the Company does not utilize any form of commercial advertising. The marketing of the Company's insurance products is generally transacted at the point of closing of auto sales at the various dealerships.

### Treatment of Policyholders

As of the period covered by the examination, the examiners encountered no items of concern regarding treatment of policyholders. In addition, the Company maintained a complaint log to monitor complaints.

## **REINSURANCE**

### Assumed

The Company assumes 100% of credit life and credit disability business produced by auto dealerships located in Colorado and Oklahoma. The produced business is underwritten by American Heritage Life Insurance Company (AHL) of Jacksonville, Florida.

Accounting and claims servicing functions for the assumed business are performed by the Company in accordance with a service agreement with AHL. Assumed premiums are deposited into an AHL premium deposit account and are subject to the terms of the settlement provisions of the reinsurance agreement and the servicing agreement.

The Company maintains an escrow deposit account in Utah, as security for the business assumed as referenced above. The deposits in trust consisted of FNMA's with a statement value of \$1,000,000.

The reinsurance agreement, service agreement, and escrow agreement were executed with an effective date of April 1, 1988, and have been filed with the Department.

### Ceded

During 2001, the Company terminated a yearly renewable term reinsurance agreement with Beneficial Life Insurance Company. The Company will retain 100% of all basic and voluntary supplemental accidental death and dismemberment coverage and all voluntary group term life coverage.

## ACCOUNTS AND RECORDS

The Company's accounting system utilized a centralized computer record processing system, supplemented by ancillary records maintained manually or on personal computers. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

Accounts and records deficiencies noted during the examination included the following:

- The examination noted delays in receiving accurate addresses on special deposits for confirmation purposes.
- The examination noted delays in receiving documentation for other invested assets.
- The examination noted delays in receiving documentation for the asset valuation reserve.
- The 2002 annual statement Schedule E - Part 2 reported one special deposit of \$368,181. The examination determined that the Company incorrectly reported this as a special deposit and recommends that the Company properly report special deposits as prescribed by the NAIC annual statement instructions.
- The Company's 2002 annual statement Schedule D reported \$904,682 for one bond security. The Company did not reflect a partial call of \$105,104 by recording the bond security at \$799,578 and cash received of \$105,104. It is recommended that the Company reflect partial calls on the trade date in accordance with SSAP No. 26. No adjustment was made since the difference would not effect surplus.

U.C.A. §31A-4-113 requires each authorized insurer to file a true statement of its financial condition and affairs as of December 31 of the preceding year in accordance with the annual statement instructions and the accounting practices and procedures published by the NAIC. According to the NAIC annual statement instructions, a statement is not considered filed unless the information therein is complete and accurate.

## **FINANCIAL STATEMENT**

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2002

Summary of Operations for the Year Ended December 31, 2002

Capital and Surplus for the Years 2000 through 2002

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

**LANDCAR LIFE INSURANCE COMPANY**  
**Balance Sheet as of**  
**December 31, 2002**

**ASSETS**

	Amount	Notes
Bonds	\$ 4,574,136	
Preferred stocks	4,025,000	
Common stocks	739,038	
Mortgage loans on real estate	11,011,507	
Cash and short-term investments	1,449,356	
Other invested assets	1,151,229	(1)
Aggregate write-ins for invested assets	423	
Life insurance premiums and annuity considerations deferred and uncollected	45,673	
Accident and health premiums due and unpaid	34,454	
Investment income due and accrued	112,526	
Receivable from parent, subsidiaries and affiliates	17,593	
<b>Total assets</b>	<b>23,160,935</b>	

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Aggregate reserves for life policies	5,287,121	
Aggregate reserves for accident and health policies	3,811,308	
Policy and contract claims - Life	152,959	
Policy and contract claims - Accident and health	118,089	(2)
General expenses due or accrued	64,138	
Taxes, licenses, and fees due or accrued, excluding federal income taxes	14,975	
Federal and foreign income taxes	19,163	
Amounts withheld or retained by company as agent or trustee	20,515	
Asset valuation reserve	1,002,554	(3)
<b>Total liabilities</b>	<b>10,490,822</b>	
Common capital stock	1,000,000	
Unassigned funds (surplus)	11,670,113	
<b>Total capital and surplus</b>	<b>12,670,113</b>	
<b>Total liabilities, capital and surplus</b>	<b>\$ 23,160,935</b>	

LANDCAR LIFE LIFE INSURANCE COMPANY  
Summary of Operations  
for the Year Ended December 31, 2002

Premium and annuity considerations	\$ 4,166,810
Net investment income	<u>1,527,254</u>
Total	<u>5,694,064</u>
Death benefits	311,292
Disability benefits and benefits under accident and health policies	377,411
Increase in aggregate reserves for life and accident and health policies and contracts	<u>1,085,749</u>
Total	1,774,452
Commissions on premiums, annuity considerations, and deposit-type contract funds	1,804,288
Commissions and expense allowances on reinsurance assumed	(16,818)
General insurance expenses	623,224
Insurance taxes, licenses and fees, excluding federal income taxes	<u>130,263</u>
Total	<u>4,315,409</u>
Net gains from operations before dividends to policyholders and federal income taxes	1,378,655
Dividends to policyholders	<u>-</u>
Net gains from operations after dividends to policyholders and before federal income taxes	1,378,655
Federal income taxes incurred	<u>195,000</u>
Net gains from operations after dividends to policyholders and federal income taxes and before realized capital gains	1,183,655
Net realized capital gains	<u>-</u>
Net income	<u><u>\$ 1,183,655</u></u>

LANDCAR LIFE INSURANCE COMPANY  
Capital and Surplus  
for the Years 2000 through 2002

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Capital and surplus, December 31, previous year	\$ 11,071,747	\$ 12,320,776	\$ 13,132,296
Net Income or (loss)	1,754,999	1,161,519	1,183,655
Change in net unrealized capital gains	(404,392)	98,400	78,885
Change in nonadmitted assets	-	-	(1,360,394)
Change in asset valuation reserve	(101,578)	(448,399)	(364,329)
Net change in capital and surplus for the year	<u>1,249,029</u>	<u>811,520</u>	<u>(462,183)</u>
Capital and surplus, December 31, current year	<u>\$ 12,320,776</u>	<u>\$ 13,132,296</u>	<u>\$ 12,670,113</u>

## COMMENTS ON FINANCIAL STATEMENT

### (1) Other invested assets

\$1,151,229

The Company reported \$2,511,623 as other invested assets. In 2001 the Company reclassified a LML Auto Lease Securitization Bond to other invested assets identifying this as a related party loan. During 2001 and 2002 the Company did not provide evidence that the LML Auto Lease Securitization Bond had been submitted to the NAIC securities valuation office.

Pursuant to SSAP No. 25 (6), the related party loan did not receive approval by the domiciliary Commissioner, however the related party loan of \$1,360,394 as of December 31, 2002, was subsequently paid down to \$277,786 as of August 2003. The examination confirmed that the related party loan is securitized by vehicle titles held in the name of LM Leasing Business Trust which are nonadmitted pursuant to SSAP No. 20 (4f).

The examination nonadmitted the related party loan of \$1,360,394 as of December 31, 2002, pursuant to SSAP No. 20 (4f) and SSAP No. 25 (6).

### (2) Contract claims: Accident and Health

\$118,089

The Company reported a claims unpaid liability for accident and health of \$37,375. This included an estimated reserve liability of \$9,000 and \$28,375 IBNR estimate as of December 31, 2002. The examination reviewed 2002 claims paid runout and estimated the claims unpaid liability was \$118,089.

### (3) Asset valuation reserve

\$1,002,554

The Company reported \$753,398. The Company reported the minimum reserve factors instead of calculating the experience adjustment factor (EAF). It was also noted that incorrect factors were applied to the asset valuation reserve (AVR) components. The examination recalculated the EAF using the maximum reserve factors. The examination increased the AVR by \$249,156. AVR adjustments were also reflected in the prior examination.



## CAPITAL AND SURPLUS

The Company's capital and surplus was determined to be \$1,690,264 less than reported in the Company's annual statement as of December 31, 2002. The following schedule identifies the examination changes:

<u>Description</u>	<u>Annual Statement</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>	<u>Notes</u>
Other invested assets	\$ 2,511,623	\$ 1,151,229	\$ (1,360,394)	(1)
Contract Claims: Accident and health	37,375	118,089	(80,714)	(2)
Asset valuation reserve	753,398	1,002,554	(249,156)	(3)
Total changes			(1,690,264)	
Capital and surplus per Company			14,360,377	
Capital and surplus per Examination			<u>\$ 12,670,113</u>	

U.C.A. §31A-8-209(1) requires the Company to maintain minimum capital in the amount of \$400,000. In accordance with U.C.A. 31A-17 Part 6, the Company reported total adjusted capital of \$15,113,775 and an authorized control level risk-based capital (RBC) requirement of \$707,499 as of December 31, 2002.

The examination determined total adjusted capital to be \$13,672,667. The examination accepted the Company's authorized control level RBC because adjustments made for examination purposes would not have a significant effect on the RBC requirement.

## SUMMARY

Items of significance or special interest contained in this report are summarized below:

1. As of December 31, 2002, the Company's fidelity bond coverage of \$150,000 did not meet the NAIC suggested minimum of \$200,000. It is recommended that the Company increase the fidelity bond coverage to the suggested minimum. This was noted in the prior examination. (FIDELITY BOND AND OTHER INSURANCE)
2. Accounts and records deficiencies were noted during the examination. (ACCOUNTS AND RECORDS)
3. During 2001 and 2002 the Company did not provide evidence that the LML Auto Lease Securitization Bond had been submitted to the NAIC securities valuation office. This bond investment was reclassified as a related party loan and is securitized by vehicle titles which are nonadmitted pursuant to SSAP No. 20 (4f). The related party loan did not receive approval by the domiciliary commissioner pursuant to SSAP No. 25 (6). The examination nonadmitted the related party loan of \$1,360,394 pursuant to SSAP No. 20 and 25. (Comments on Financial Statement - Other invested assets)
4. The examination increased the asset valuation reserve (AVR) by \$249,156. The Company reported the minimum reserve factors instead of calculating the experience adjustment factor (EAF). It was also noted that incorrect factors were applied to the AVR components. The examination recalculated the EAF using the maximum reserve factors. AVR adjustments were also noted in the prior examination. (Comments on Financial Statement - Asset valuation reserve)
5. The Company's capital and surplus was determined to be \$12,670,113 for examination purposes. The Company's minimum capital requirement was determined to be \$400,000. The Company's total adjusted capital was \$13,672,667 and its authorized control level risk-based capital requirement was accepted to be \$707,499. (CAPITAL AND SURPLUS)

## CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Company are acknowledged.

Respectfully submitted,

A handwritten signature in cursive script that reads "David A. Martinez".

David A. Martinez, CFE  
Examiner in Charge, representing the  
Utah Insurance Department